



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

AETNA HEALTH OF UTAH INC.

of

Sandy, Utah

as of

December 31, 2020

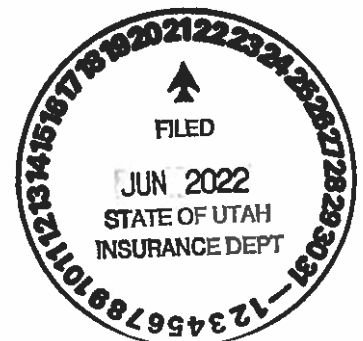


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April 28, 2022

Honorable Jonathan T. Pike, Commissioner

Utah Insurance Department

4315 S 2700 W, Suite 2300

Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a coordinated multi-state examination, as of December 31, 2020, has been made of the financial condition and business affairs of:

AETNA HEALTH OF UTAH INC.

Sandy, Utah

hereinafter referred to in this report as “the Company” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last full scope examination of the Company was as of December 31, 2015. This full scope examination of the Company was conducted by representatives of the Utah Insurance Department (“Department”) and covers the period of January 1, 2016, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. This is a coordinated examination with representatives of the Connecticut Insurance Department, regulators of the Company’s parent company, CVS Health Corporation (“CVS”).

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the

Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings for inclusion in this report.

COMPANY HISTORY

General

The Company was originally incorporated in Utah on July 1, 1987 under the name FHP of Utah. After several subsequent acquisitions, mergers and name changes, the Company now known as Altius Health Plans Inc. ("Altius") was purchased by Coventry Health Care Inc. ("Coventry") on September 1, 2003. Aetna Inc. ("Aetna") acquired Coventry in May 2013, and the Company changed its name to Aetna Health of Utah Inc. CVS Health Corporation ("CVS") acquired Aetna on November 28, 2018, which made CVS the Company's ultimate controlling entity.

Dividends and Capital Contributions

The Company did not receive any capital contributions during the examination period.

The Company did not pay any dividends in 2016.

The Company paid an extraordinary dividend of \$15,000,000 to the parent company on September 13, 2017. The Department approved the dividend on August 23, 2017.

The Company paid an extraordinary dividend of \$20,000,000 to the parent company on September 4, 2018. The Department approved the dividend on August 24, 2018.

The Company paid ordinary dividends in the amount of \$3,500,000 and \$4,200,000, in 2019 and 2020, respectively. The Department approved those dividends on November 27, 2019, and November 19, 2020, respectively.

Mergers and Acquisitions

In July 2015, the Company's previous parent, Aetna, announced its proposed \$37 billion acquisition of Humana Inc. The acquisition was blocked by the United States Department of Justice, resulted in the parties mutually ending their merger agreement in February 2017.

Aetna was later acquired by, and became a wholly owned subsidiary of, CVS on November 28, 2018.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Directors

The Company's bylaws indicate that there shall be at least three (3) directors. The following persons served as directors of the Company as of December 31, 2020:

Name and Location	Title and Principal Occupation
Matthew W. McGuinness Walnut Creek, CA	Chief Financial Officer, Aetna Health of Utah Inc. Lead Director, Aetna Northwest/Mountain Market, CVS Health
Jamie L. Larson (Gough) Herriman, UT	Senior Director Sales & Service CVS Health
Catherine N. Gaffigan Portland, OR	President & Chief Executive Officer, Aetna Health of Utah Inc. Vice President, Aetna Market President, CVS Health
Brett R. Clay Draper, UT	Executive Director, Aetna Northwest/Mountain Market, CVS Health

Officers

The officers of the Company as of December 31, 2020 were as follows:

Name	Title
Catherine N. Gaffigan	President & Chief Executive Officer
Edward C. Lee	Vice President, Secretary
Tracy L. Smith	Vice President, Treasurer
Kevin J. Casey	Senior Investment Officer
Matthew W. McGuinness	Chief Financial Officer
Robert J. Parslow	Corporate Controller
Peter Keller	Assistant Controller
Whitney D. Lavoie (Nazarko)	Assistant Controller
Bryan J. Lane	Assistant Controller
Frank F. Chronister	Assistant Controller

Holding Company

The Company is part of a holding company system as defined in Utah Code §31A-16. The Company is wholly owned and controlled by Aetna Health Holdings LLC. The ultimate parent in the holding company system is CVS. An organizational chart illustrating the holding company system as of December 31, 2020 follows:



TRANSACTIONS AND AGREEMENTS WITH AFFILIATES

The following are the most significant affiliated agreements and transactions in place as of December 31, 2020:

Administrative Services Agreement

The Company entered into an Administrative Services Agreement with Aetna Health Management, LLC (“AHM”) effective January 1, 2014. The agreement was amended on September 1, 2015, to ensure compliance with the Affordable Care Act. Under the agreement, AHM agrees to provide certain administrative services, pharmacy benefit management services, and pharmacy rebate services. The fees are based on a percentage of premium subject to an annual true-up to actual costs. The Company paid the following in administrative services fees to AHM during the examination period:

2016	2017	2018	2019	2020
\$49,438,408	39,586,510	\$27,738,577	\$20,051,785	\$16,970,019

Pharmacy Benefits Administration Agreement

The Company entered into a Pharmacy Benefits Administration Agreement with Coventry Prescription Management Services (“CPMS”) effective January 1, 2011, for the management and administration of commercial and Medicare pharmacy benefits in Utah, Idaho, and Wyoming. The Medicare portion of the agreement was terminated on January 1, 2015, and the commercial portion of the agreement was amended on January 1, 2015 to modify the fees. The Company paid CPMS \$6,379,549 and \$15,798,717 in capitation fees for the years ended December 31, 2017 and 2016, respectively. CPMS paid the Company \$625,230 and \$1,826,808 in pharmacy rebates for the years ended December 31, 2017 and 2016, respectively. This agreement was terminated January 1, 2018.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a health maintenance organization to provide Title XVII Medicare and Comprehensive health products in Idaho, Nevada, Utah, and Wyoming. Utah comprised 96% of premiums written in 2020. The Company is planning to underwrite individual commercial business in Nevada beginning January 1, 2022.

The Company was also a third-party administrator for self-funded employer groups and the Federal Employees Health Benefit Plan until these businesses moved to fully-insured or terminated.

REINSURANCE

Assumed Reinsurance

The Company did not have any assumed reinsurance.

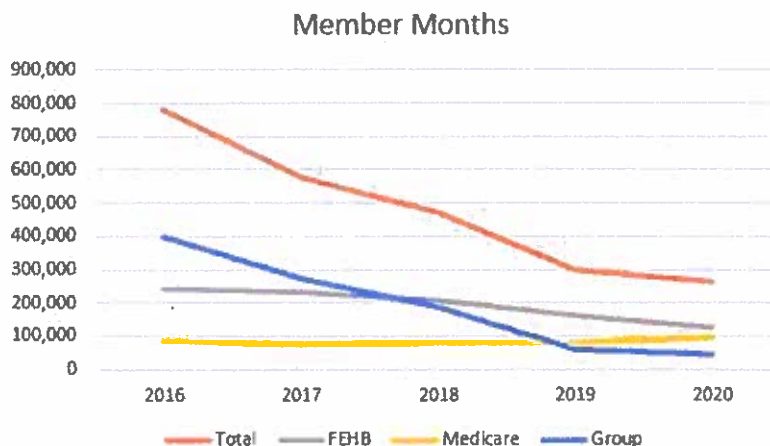
Ceded Reinsurance

Effective January 1, 2014, the Company entered into a temporary reinsurance arrangement with the U.S Department of Health and Human Services (“HHS”) as part of health care reform. The program expired on December 31, 2016. Under the program, all issuers of major medical commercial insurance products and self-insured plan sponsors are required to contribute funding in amounts set by HHS. A portion of the funds collected will be utilized to reimburse issuers’ high claims costs incurred for qualified individual members. When annual claim costs incurred by the Company’s qualified individual members exceed a specified attachment point, the Company is entitled to certain reimbursements from this program. In 2016, the Company had a reinsurance recoverable on paid and unpaid losses through this program of \$821,075 and ceded \$93,175 in premiums. The Company received an additional \$107,442 in 2017 and \$3600 in 2018 through the program. No premiums were ceded after December 31, 2016 as the program expired.

On April 1, 2014, the Company entered into a quota share reinsurance agreement with Fresenius Medical Care Holdings, Inc. (“Fresenius”), which was amended on March 1, 2016 to include Coventry, an affiliate of the Company. The reinsurance agreement cedes a portion of the Company’s Medicare Advantage dialysis expenses to Fresenius, a dialysis provider and reinsurer. Fresenius is not an authorized reinsurer; however, the Company holds \$30,450 as collateral which is in excess of the ceded expenses of \$23,678 for 2020.

GROWTH OF COMPANY

The Company’s member months decreased by 12.6% between December 31, 2019, and December 31, 2020, primarily due to a decrease in enrollment in the Federal Employee Health Benefit Plan (“FEHB”). The Company’s group member months decreased by 22.3% in the same period, and Medicare member months increased 15.4%.



The Company is planning to underwrite individual commercial business in Nevada beginning January 1, 2022, which is anticipated to help offset the decrease in group member months.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

AETNA HEALTH OF UTAH INC.

BALANCE SHEET
as of December 31, 2020

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$ 37,907,267
Cash and cash equivalents	35,759,426
Investment income due & accrued	378,583
Uncollected premiums in course of collection	4,791,327
Accrued retrospective premiums	1,741,486
Amounts receivable relating to uninsured plans	1,853,714
Current federal & foreign income tax recoverable & interest thereon	152,938
Net deferred tax asset	392,106
Guaranty funds receivable or on deposit	7,016
Healthcare and other amounts receivable	1,623,662
Aggregate write-ins for other than invested assets	1,704
Total Assets	<u>\$ 84,609,229</u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Current Year</u>
Claims unpaid	21,512,565
Accrued medical incentive pool and bonus amounts	2,804,275
Unpaid claims adjustment expenses	276,528
Aggregate health policy reserves	8,956,535
Aggregate life claim reserves	105,987
Premiums received in advance	46,786
General expenses due or accrued	4,383,818
Amounts withheld or retained for the account of others	38,385
Remittances and items not allocated	149,510
Amounts due to parent, subsidiaries and affiliates	1,633,956
Payable for securities	500,000
Funds held under reinsurance treaties	30,453
Liability for amounts held under uninsured plans	609,561
Aggregate write-ins for other liabilities	126,217
Total Liabilities	<u>\$ 41,174,576</u>
Common capital stock	3,509,000
Gross paid in and contributed surplus	29,572,042
Unassigned funds (surplus)	10,353,611
Total Capital and Surplus	<u>43,434,653</u>
Total Liabilities, Capital and Surplus	<u>\$ 84,609,229</u>

AETNA HEALTH OF UTAH INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2020

REVENUES

Member months	261,540
Net premium income	\$161,856,051
Change in unearned premium reserves	(4,539,577)
Total Revenues	<u>157,316,474</u>

EXPENSES

Hospital/medical benefits	81,138,168
Other professional services	7,077,865
Outside referrals	3,234,863
Emergency room and out-of-area	7,481,945
Prescription drugs	30,251,892
Incentive pool, withhold adjustments and bonus	1,467,651
Net reinsurance recoveries	<u>241,342</u>
Total hospital & medical	130,411,042
Claims adjustment expenses	2,749,260
General administrative expenses	17,946,801
Increase in reserves for life and accident and health contracts	(80,945)
Total underwriting deductions	<u>151,026,158</u>
Net underwriting gain (loss)	6,290,316
Net investment income earned	1,242,110
Net realized capital gains (losses)	(144,226)
Net investment gain (loss)	<u>1,097,884</u>
Net income (loss) after capital gains tax	7,388,200
Federal and foreign income taxes incurred	<u>2,161,738</u>
NET INCOME	<u>\$5,226,462</u>

AETNA HEALTH OF UTAH INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2016 through 2020

	2016	2017	2018	2019	2020
Capital and surplus, December 31, prior year	\$55,877,279	\$54,382,977	\$53,872,615	\$38,142,470	\$ 42,021,229
Net income (loss)	(2,654,056)	16,089,450	4,764,477	6,979,098	5,226,462
Change in net unrealized capital gains (losses)	232,499	(23,940)	(425,100)	447,752	3,071
Change in net deferred income tax	829,820	(874,226)	(116,031)	291,064	(30,241)
Change in nonadmitted assets	97,435	(701,646)	46,508	(339,155)	414,132
Surplus adjustments: Paid in			(7,000,000)		
Dividends to stockholders		(15,000,000)	(13,000,000)	(3,500,000)	(4,200,000)
Net change in capital and surplus for the year	(1,494,302)	(510,362)	(15,730,145)	3,878,759	1,413,424
Capital and surplus, December 31, current year	\$54,382,977	\$53,872,615	\$38,142,470	\$42,021,229	\$ 43,434,653

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as of December 31, 2020 as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There are no comments on financial statement items as of December 31, 2020 as a result of the examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for inclusion in this report.

ACKNOWLEDGEMENT

Karen Elsom, FSA, MAAA, of the actuarial firm Lewis & Ellis, Inc., reviewed the reserve portion of the examination. Philip McMurray and Tom Hayden, of Risk & Regulatory Consulting, reviewed the information technology portion of the examination. Chris Rushford, of Risk & Regulatory Consulting, reviewed the medical loss ratio portion of the examination. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, Utah Insurance Department, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

Angela Alires

Angela Alires, PIR

Examiner-in-Charge

Utah Insurance Department